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S E C R E T SECTION 01 OF 04 DAKAR 001046

SIPDIS

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TAGS: [EFIN](#) [KCOR](#) [EAID](#) [ECON](#) [PGOV](#) [SG](#)
SUBJECT: FINANCE MINISTER REGAINS CONTROL OF SENEGAL,S UGLY
PUBLIC FINANCES

REF: A. DAKAR 1011 (NOTAL)
[1](#)B. DAKAR 675 (NOTAL)
[1](#)C. DAKAR 661 (NOTAL)
[1](#)D. 07 DAKAR 1925 (NOTAL)

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Classified By: AMBASSADOR MARCIA S. BERNICAT, FOR REASON 1.4 (B) AND (D)
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[1](#)1. (S) Summary: During an August 25 courtesy call, Senegal's Finance Minister Abdoulaye Diop revealed to the Ambassador that he had "wrested control" of Senegal's public finances from the Budget Ministry, subordinate to the Finance Ministry. In doing so, the former budget Minister, and ally of Karim Wade, was fired and replaced by a senior Treasury technocrat who has Minister Diop's confidence. New audits apparently reveal that the scope of Senegal's budget deficit as a result of extra-budgetary payments is much larger than previously assumed and that these payments had been going on for years. These revelations could cost previous Budget Minister and current Prime Minister Soumare his job. An enormous stock (hundreds of millions of dollars) of un-paid bills for private sector contractors remains on the books, as previous infusions of capital were surprisingly not used to pay these arrears. Minister Diop noted that many of the firms knowingly signed contracts outside of Senegal's legal public finance framework. Surviving the current crisis will require new budget cuts and follow-through by donors who have pledged direct budget support. Despite the obvious indications of large-scale corruption, we are not confident that the country's anti-corruption bodies and judiciary will take appropriate actions to hold accountable the implicated officials and firms. End summary.

MOF FIGHTS FOR CONTROL OF SENEGAL'S PUBLIC FINANCES

[1](#)2. (C) During what was billed as an introductory/courtesy call, on August 25 Senegal's long-serving Finance Minister

Abdoulaye Diop related to the Ambassador in confidence his fight to regain control of Senegal's Treasury and public expenditures. Diop explained that it was important for the USG to understand the recent problems with Senegal's public finances and not rely on "what they say in the press."

¶3. (C) Background: For almost two years, credible reports of payments of large, extra-budgetary expenditures to ministries and officials, and related contracts to private firms have slowly come to light. As reported in Ref C, the IMF discovered large stocks of unpaid bills owed to the private sector, most of which were obligated by ministries other than Finance, and not covered by Senegal's official budget or the country's legal framework. Our sources at the Ministry of Finance have asserted that Minister Diop had not approved these commitments, and that then-Budget Minister Ibrahima Sarr, with the knowing complicity of Prime Minister Soumare, was responsible for signing the payment orders. End background.

¶4. (C) Minister Diop told the Ambassador that on a number of occasions he had refused to make payments for projects or bills that were not in conformity with the country's official budget, adding that on more than one occasion he had directly refused requests from President Wade. Diop shared one example: during a meeting he attended with Wade and Iranian President Ahmadinejad in Tehran (date unspecified), Wade asked Diop to commit significant funds as a guarantee for a new Iranian private investment in Senegal. Diop refused on the spot, causing Wade to become visibly angry. According to Diop, Ahmadinejad commented to Wade it was "O.K." and that "all Finance Ministers caused such problems."

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¶5. (C) According to Diop, "at some point I lost the power to control the country's expenditures" as Budget Minister Sarr began approving requests presented to him by a number of ministers, agency officials, and apparently, we later learned, prominent individuals. Diop added that the officials and many private contractors signed contracts knowing that they did not conform to Senegal's public finance laws.

FUNDS UNACCOUNTED FOR

¶6. (S) Diop's confidante at the Ministry, Sogue Diarisso (protect), revealed that Senegal's budget situation is worse than expected because recent major inflows of money have not been accounted for. He admitted that "nobody knows" where the money ended up from Sudatel's USD 200 million telecommunications license issued in September 2007 (Ref D). That income was supposed to pay for private sector arrears. As noted in Ref A, the money from recent Treasury Bonds was apparently spent on immediate needs and not on the arrears, but our MinFin contacts also complain that significant portions of both these infusions of capital went to special accounts within the Presidency, outside of the Treasury's control.

IMF HELPS DIOP WIN ROUND ONE

¶7. (C) Payment of arrears to the private sector and verification of proper expenditure procedures were key components of the IMF's approval of Senegal's November 2007 Policy Support Instrument (PSI). However, even at the time of the signing, it was widely suspected that the actual amount of extra-budgetary commitments was significantly larger than what the Budget Minister had told the IMF. ResRep Alex Segura confided that GOS officials had been "hiding" the real scope of the arrears and unjustified payments. Diop also came to realize that the scope of the problem was much larger than he had imagined and that Budget and Treasury officials were hiding damning information from the IMF.

¶8. (C) Diop told the Ambassador that he convinced Segura to carry out an audit of Treasury payments, with the assistance of the Ministry of Finance's Inspectors General office. Though it was a hastily performed audit, the inspectors identified at least CFA 109 billion (USD 260 million) in unjustified commitments in the current, 2008 budget. According to Diop, after these initial results, Segura and Diop told the Prime Minister that they had "lost confidence" in the Budget Minister, who was quickly fired on August 7 and replaced by Abdoulaye Sow, a long-serving Finance technocrat who has Diop's confidence (Ref A). (Note: we have not yet been able to verify this account of events with the IMF's Segura. End note.)

PRIME MINISTER POSSIBLY NEXT

¶9. (S) The dismissal of Minister Sarr was an easy step for Prime Minister Soumare to take to demonstrate the government is addressing the budget crisis. However, according to Senior MOF officials, the Prime Minister himself will likely lose his job because of his involvement in the unobligated payments. Soumare apparently supported Sarr, and perhaps put pressure on him, to make unjustified payments and to hide these transactions from both the MOF and the IMF. Perhaps even more damning, the MOF inspectors have continued their work and have discovered similar payments going back as far as 2003, with large distributions made in 2006-2007 while Soumare was Budget Minister. (Minister Diop was reportedly angry when Soumare, his then-underling, had been promoted to

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Prime Minister in June 2007.)

¶10. (C) According to our contacts, the total amount of money disbursed through these irregular channels could be as much as CFA 500 billion (USD 1.2 billion). The IMF ResRep departed Dakar for vacation shortly after demanding Sarr's sacking, and therefore has not yet reacted to the audit's findings of these additional and longstanding extra-budgetary expenditures. We have heard, however, that the IMF plans to send its own investigative team to Dakar beginning September ¶15. These types of unjustified payments are facilitated by Senegal's broken budget process. Audits of official expenditures are supposed to be carried out for each budget in a timely manner, with the results reported to the National Assembly for approval. Since 2000, however, no national budget has been properly reviewed. In addition, Senegal's budgets are not made publicly available.

NOW TO CLEAN UP THE MESS -- WORSE THAN IMAGINED

¶11. (S) Minister Diop told the Ambassador that "while the situation is under control for the moment, I have to be circumspect in my public statements; I cannot reveal the true scope of the problem and cause a panic." By all accounts, Senegal's current budget is in dire straits. Sogue Diarisso told EconCouns that even the Finance Minister did not yet realize how bad the situation was, adding that it was "grave" and "complicated" (meaning negatively influenced by political considerations). Diarisso explained that the full extent of unjustified payments and pay orders will be hard to establish because most were delivered to Ministry offices, Ministers, Agency heads, politicians, and contractors who have the right to a line of credit from the Treasury and that many of these payments have already been reconciled within the system using fraudulent documents. However, initial reports from the audit already add up to at least CFA 350 billion (USD 830 million) in payments, according to Diarisso.

¶12. (C) To begin addressing the crisis, the Finance Minister's staff has created an action plan, which includes new budget cuts, continued reductions in energy and food subsidies, and curtailing current infrastructure projects. (As of September 1, contractors for many publicly-financed road construction projects had suspended work, including on President Wade's highly visible Dakar Corniche and Toll Road

projects.) Diarisso explained that the GOS holds a CFA 150 billion line of credit with Ecobank that would have to be tapped, but it would not be enough to close the budget gap, and the government will have to look to other sources, likely other commercial banks, for additional loans. He added that if the donors who pledged budget support do not come through with the money in the next few weeks, then "that will be the end" -- implying that the government would begin defaulting on some of its financial obligations.

¶13. (S) As noted in Ref B, Diarisso has been very worried (as is Diop) that the government plans to sell its shares in the profitable telecommunications firm Sonatel. In this latest meeting he added that he was now concerned that the sale would go ahead so that the proceeds could be used to help cover these extra-budgetary payments to the private sector. He was dismayed by the prospect that the country's "family jewels" could be sold-off in a non-transparent manner simply to cover-up irregular, illegal, and corrupt payments -- perhaps allowing these networks of abuse to remain in place.

KARIM - HE WHO SHALL NOT BE NAMED

¶14. (S) Regarding who is behind this network of unjustified

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payments, all our interlocutors indicate by allusion (until their frustration sufficiently mounts for the names to leak out) that it is Karim Wade and his close associates within government, including Aminata Niane, the head of Senegal's investment promotion agency APIX, who have been demanding payments via the Budget Minister to support their pet projects and key government and private sector allies. We believe that Karim Wade was instrumental in placing Ibrahima Sarr as Budget Minister and also has significant influence over the Prime Minister. Minister Diop made a point of mentioning to the Ambassador that Energy Minister Samuel Sarr (no relation to the former Budget Minister, but a close confidante to President and Karim Wade) was also implicated in these backdoor payments.

COMMENT

¶15. (S) The scope of these unjustified payments would be hard to describe as anything other than criminal and corrupt (Diarisso's terms). The assessments of what has been happening from different contacts within the Ministry of Finance are very consistent and credible. However, it is unlikely that anybody, even former Minister Sarr, will be held accountable. Senegal's Financial Intelligence Unit &CENTIF8 is the agency most likely to pursue this matter; the country's other supposedly independent anti-corruption bodies have never shown a willingness to take action on major cases. We believe that the Minister of Finance is not implicated, and hope the same can be said for the new Budget Minister, despite his longstanding senior position at Senegal's Treasury. These two knowledgeable technocrats will likely be too busy, however, trying to stop the fiscal bleeding and keep paying the country's bills to pursue a case against other Ministers and senior officials, not to mention Karim Wade, the country's second most powerful man.

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